Policing the Internet to Protect Consumers

A Decade of Leadership

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EXECUTIVE SUMMARY

- Online lending in the U.S. is a fast-growth market expected to reach $100 billion in loans by 2020 as consumers embrace the convenience, privacy, and safety of online loans.
- Online Lenders Alliance (OLA) members account for approximately 80 percent of the nation's consumer online lending volume and have a significant interest in ensuring that customers are well-informed and fairly treated.
- In 2008, OLA member companies set a goal of developing a set of guidelines in addition to existing standards to help ensure online borrowers are protected.
- The first step was the establishment of OLA Best Practices to guide industry participants and the creation of the OLA Seal to enable borrowers to identify companies that commit to the highest standards of conduct.
- OLA then established the OLA Consumer Hotline to help consumers with questions or issues about online lending. Since its inception in January 2016, the Hotline has received 25,555 calls—an average of 774 calls per month. The Hotline is able to resolve most issues in 72 hours or less.
- OLA launched an aggressive website monitoring program and later engaged IntegriShield to search for misleading terminology, searching for 18 prohibited terms. For example, the term "no credit check" is misleading because all online lenders do some form of credit check.
- In January 2019, the list of searchable terms expanded to 32.
- In the first six months of this program, IntegriShield found 1,286 violations.
- During the first two years of the program, IntegriShield discovered 2,476 instances of false or misleading terminology online. After search techniques were refined using the original 18 prohibited terms, total infractions discovered grew to 4,426 in August 2018.
- Over 1 million websites have been analyzed since the program's inception.
- Companies notified of violations have remediated 98 percent of them.
- A little over a year ago, OLA began public disclosure of non-compliant companies, which has become a successful deterrent, with 50 percent of these companies correcting violations so that they can be removed from the list.
- If violations go uncorrected, OLA shares the details with the Federal Trade Commission.
- In 2018, OLA identified a rise in email advertising utilizing fraudulent and misleading terms. Starting in 2019, OLA will monitor email advertising as it has done for websites.
- OLA has made a long-standing commitment to foster a lending ecosystem governed by the OLA Best Practices to ensure that customers have access to the most innovative and responsible products in the online lending marketplace.

A BOLD MOVE TO POLICE ONLINE LENDING

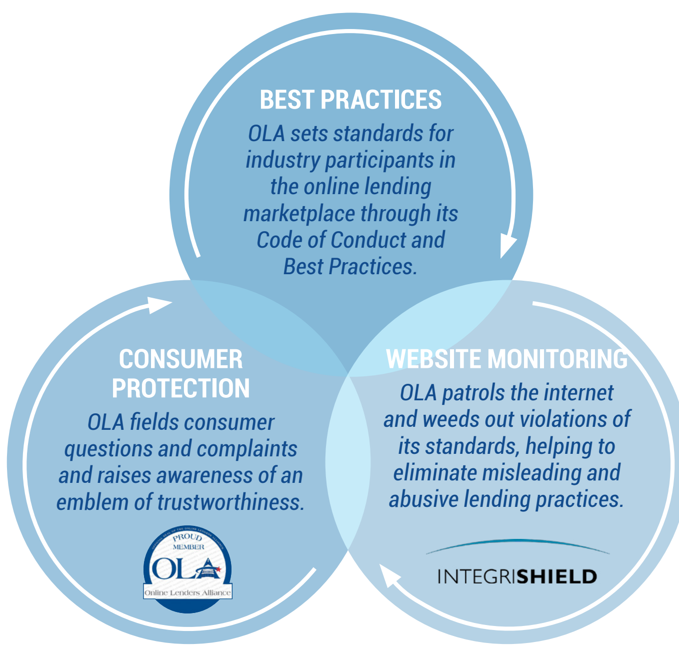
As the online lending marketplace matures and demand grows, the industry itself is working to ensure that everyone plays by the rules and protects the interests of customers.

Over a decade ago, the financial technology community, under the leadership of the Online Lenders Alliance, came together in pursuit of a simple yet bold goal: Take an innovative and rapidly evolving financial marketplace powered by technology and make it safer for borrowers and lenders alike. Leaders of the fintech community recognized that misleading claims and false promises propounded by fraudulent actors could undermine reputable companies. Online lending—a fast-growing marketplace that is expected to reach $100 billion in outstanding loans by 2020, according to the U.S. Department of Treasury[1]—is making lending more convenient and accessible to millions of consumers. By harnessing fintech to expand access to fair credit, leaders in online lending are working to foster an environment where everyone can be assured of safety, fairness and integrity.

This report takes stock of the three-part policing initiative spearheaded by the OLA and demonstrates how it is producing tangible results at a time when the nature of financial intermediation is undergoing radical, technology-driven change. The elements of the policing initiative are:

1. Establishment of industry Best Practices.
2. A website monitoring program that searches the internet for false claims and identifies those who make them.
3. Consumer tools such as the OLA Consumer Hotline, the OLA Seal, and a growing array of public-private partnerships.

In examining this policing initiative, this report leverages detailed data to underscore the size and scope of the community's efforts to create a healthy online lending ecosystem as well as efforts going forward aimed at making the internet safer for online lending.



1 U.S. Department of Treasury, "A Financial System That Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation," page 89, July 2018.

THE EMERGENCE OF ONLINE LENDING

Access to safe, affordable, and reliable credit is fundamental to economic growth and prosperity. Online lending has grown exponentially in recent years as an explosion in technology has changed the way borrowers find and secure financing. By harnessing innovative financial technology, online lenders have emerged as the fastest-growing lending sector.

Consumers and small businesses alike are driving demand for online lending. The typical online borrower includes millions of Americans with a credit score below 700.[2] The most utilized loan product is an uncollateralized low-dollar loan with a rapid decision time, usually funded and repaid electronically.[3]

Online lending platforms enable borrowers to meet their credit needs safely, conveniently, and affordably. Many subprime and nonprime borrowers cannot secure loans from traditional financial institutions, which often demand lengthy credit histories and extensive documentation before extending credit. Compared to consumers with credit scores above 700, subprime and nonprime borrowers are eight times more likely not to seek a bank loan and six times more likely to use an online-only financial institution.[4]

Both the current and previous administrations have noted the dramatic benefits that fintech offers to consumers, most recently in a July 2018 U.S. Department of Treasury report titled "A Financial System That Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation." Excerpts follow:

> *"Nonbank digital lenders have gained outsized attention in recent years, driven in part by their rapid rate of growth and employment of new technology-intensive approaches to lending...*
>
> *"Moreover, these lenders are designing these digital services to provide customer experiences that are seamless and timelier than the techniques generally employed by traditional lenders. These changes also appear to reduce expenses, which lowers the cost of credit as well as providing greater access to credit.*
>
> *"In contrast, many financial institutions have yet to digitize their lending at a similar level. For example, many banks have yet to fully digitize their origination processes…*
>
> *"…Moreover, the partnerships between banks and new digital lenders have been expanding and are poised to increase over time, potentially serving to narrow the gap in practices between those two sectors for the benefit of both consumer and business segments…*
>
> *"…Key elements of digitization employed by new digital lenders are rapidly expanding across the wider banking and financial institution landscape and are expected to permeate all major lending segments over time."*[5]

Lending to consumers and small businesses over the internet and mobile devices increased from $473 million in 2011 to $23 billion in 2015,[6] and the pace is still accelerating. The surge of online lending occurred during a decade in which traditional lenders had retreated in response to the financial crisis of 2008-9. By 2016, the Online Lenders Alliance estimated that its members account for about 80 percent of the nation's small-dollar online lending volume.[7]

Who is the Online Borrower?

The characteristics of online borrowers include:

- **They are job holders or have proven income.** The first and most consistent requirement to be approved for an online loan is proof of employment or other steady income.
- **They are Americans at all income levels.** Despite a perception that online borrowers are mostly low-income, many online borrowers are from middle- and upper-income levels.
- **They have bank accounts.**
- **They are creditworthy, with a proven ability to repay.** Over 70 percent of online loans are repaid in full.
- **Many are middle-aged.** The median age of an online installment loan borrower is 43. Most borrowers are neither young nor elderly.
- **Many are homeowners and well-educated.** Homeowners represent 42 percent of online borrowers and a majority have completed some higher education, with many having four-year degrees.

2 Center for the New Middle Class, "Nonprime Americans: The Scourge of Unexpected Expenses," January 2017.
3 "Report to the Congress on the Availability of Credit to Small Businesses," Federal Reserve Bank of San Francisco, September 2017.
4 Center for the New Middle Class, "Only Half of Americans Feel Like Banks Can Help Their Financial Progress," April 2018.
5 U.S. Department of Treasury, "A Financial System That Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation," page 85, July 2018.
6 Neil Tomlinson, "Marketplace Lending: A Temporary Phenomenon?," Deloitte Insights, May 2016
7 James Rufus Koren, "Trade group promises stricter scrutiny of online loan ads," Los Angeles Times, July 15, 2016.

Risk is part and parcel of any innovation, and managing that risk falls within the responsibility of the entire industry. While the online lending industry is heavily regulated by 18 federal statutes[8] as well as a broad array of state and local laws, there still exist some actors who attempt to operate beyond current regulatory confines. The Federal Trade Commission (FTC) has historically warned consumers about unregulated actors operating outside the scope of conventional laws.[9] This trend, if left unchecked, could have a chilling effect on the availability of this increasingly important source of capital.

SETTING HIGH STANDARDS

Sound business practices and objective standards are essential to ensuring industry excellence and longevity. Recognizing this, a group of fintech companies that embraced the responsibility to ensure that borrowers are fully informed, fairly treated, and using lending products responsibly came together to establish a set of high industry standards. In creating the OLA, the inaugural OLA members agreed to hold themselves to standards above and beyond the current legal and regulatory structure.

These "Best Practices" initially took the form of a series of policy statements aimed at protecting consumers. Today, these OLA Best Practices have grown to a 53-page document that members, the industry, and any partners that OLA members work with use to stay current on the changing legal and regulatory landscape. OLA Best Practices cover all facets of the industry including advertising and marketing, privacy, payments, and mobile devices.

OLA Best Practices are designed to help consumers make educated financial decisions by ensuring that the industry fully discloses all loan terms in a transparent, easy-to-understand way. Some highlights of OLA Best Practices are summarized in the sidebar. The complete set of OLA Best Practices may be viewed and downloaded at www.onlinelendersalliance.org.

OLA's Best Practices Highlights

Companies must:

- Maintain a reasonable cancellation policy that gives consumers a chance to change their mind.
- Be in good standing with governing officials and regulatory bodies and comply with laws and regulations.
- Never engage in activities that are unfair, abusive or deceptive.
- Protect consumers' personal data with comprehensive website security and a privacy policy and ensure that vendors do the same.
- Help consumers help themselves by providing referrals to credit counseling, education and assistance when appropriate.
- Use advertising and marketing practices that promote the responsible use of short-term credit services. Lenders must not engage in any false, misleading or deceptive advertising campaigns.
- Take applications from consumers and originate loans consistent with all applicable laws.
- Provide comprehensive website security and fraud prevention practices.
- Always treat consumers with respect and use fair, professional and non-abusive collection practices.

8 Online Lenders Alliance, "Federal Statutes and Regulations Applicable to the Consumer Finance Industry," March 2015.
9 Federal Trade Commission, "Online Payday Loans," www.ftc.com, February 2013.

EMPOWERING CONSUMERS TO BE INFORMED BORROWERS

With the advent of OLA Best Practices, a new challenge surfaced: How to inform consumers as to which online financial services providers were following OLA's Best Practices, thus signaling that they would treat consumers fairly and with respect.

In response, OLA in 2014 created its own seal designed to help consumers borrow with confidence.

Companies can embed the OLA Seal on their websites to show customers and regulators that they abide by OLA's Best Practices, a sign of commitment to the highest standards of conduct, including having procedures for handling complaints. Consumers who look for the Seal can be assured that they are working with a reputable company. The OLA Seal's growing visibility gives consumers the peace of mind that they are being treated fairly and are fully informed about loan options and features.

Consumers' comfort with fintech companies has grown significantly in recent years, reflecting their increased reliance on the convenience and speed of online and mobile channels to manage their finances. In 2018, a survey showed that the percentage of consumers saying they would be comfortable using a fintech company to take out a loan increased 34 percent from the previous year.[10]

HOLDING THE INDUSTRY ACCOUNTABLE

The standards established by OLA Best Practices were rooted in the belief that all members of the online lending community must take steps to safeguard this unique marketplace, especially by protecting customers. In the years that followed the creation of OLA Best Practices, members and their customers noticed a profusion of websites that were using misleading claims or false promises.

To address this development, OLA initially undertook the significant job of identifying abusers, violations, and questionable claims. The effort would build on OLA's long-standing commitment to setting industry-leading standards and best practices that ensure customers have access to the most innovative and responsible products in the market.

WEB-CRAWLING 101

The centerpiece of the initiative was OLA's ambitious web-crawling program, started in 2016, for the purpose of searching Internet sites and identifying any making misleading claims. Soon after this began, however, OLA realized that an independent third-party examiner would be needed to ensure that these efforts were undertaken fairly and comprehensively.

That recognition led OLA to contract with IntegriShield, a regulatory technology company based in Kansas City, to build a program that would search the web for sites featuring untruthful and misleading terms. Once these sites were identified, OLA would work with the company to delete or change any misleading statements.

There has been a growing need to monitor the web. With new content issued daily, systems that can automate web searches have become necessary to keep up. Several methods can be used to monitor, but at the core, most web monitoring platforms use language as a basis to discover content.

Search terms and phrases are turned into rule sets to bring in URLs that are most likely to contain content in question. After content is discovered, additional rule sets are used to further identify violations on each URL. Once identification is complete, websites with violations are flagged and available for reporting.

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10 Fiserv/The Harris Poll, "Channels and New Entrants," 2018.

TARGETING MISLEADING TERMINOLOGY AND CLAIMS

A cornerstone principle of reputable online lending is that advertisements and marketing materials that lenders and online advertisers distribute to consumers must be fair and accurate. Under the OLA Best Practices, member organizations are required to provide clear and conspicuous terms and conditions that accurately describe the services they provide. They must properly disclose the cost of obtaining a loan, and must not guarantee any specific outcome. By adhering to these principles, lenders and online advertisers protect themselves as well as customers. Violating fair lending laws and committing unfair, deceptive or abusive acts and practices (UDAAP) can trigger regulatory enforcement actions, steep fines, and reputational damage.

Misused and misleading terminology accounts for 90 percent of the Best Practices violations identified through the web-crawling initiative. Other violations include false claims of OLA membership (5 percent), incorrect use of the OLA brand (4 percent), and infringement of the OLA brand (1 percent).

Fraudulent actors frequently make claims that reputable lenders would not—for example, use of the phrase “No Credit Check.” Online lenders always perform credit checks of prospective borrowers and have developed innovative methods to determine creditworthiness. This means that making any “No Credit Check” claim is misleading at best, and in some cases outright false.

Since the OLA web-crawling initiative began in 2016, 897 instances of the false claim “No Credit Check” were identified. Claims that a loan was “Guaranteed” were also identified, totaling 332 over two years. Promises of a “Match,” a relatively uncommon term in year one of the web-crawling initiative, ballooned to 575 in year two, making it the most common misleading term in 2018. Gradually, additional terms were added, and as of December 2018, a total of 18 banned terms were covered by IntegriShield's ongoing searches. This list grows to 32 banned terms beginning in January 2019, reflecting continued efforts by OLA to identify misleading claims.

ONLINE LENDERS ALLIANCE BANNED TERMS

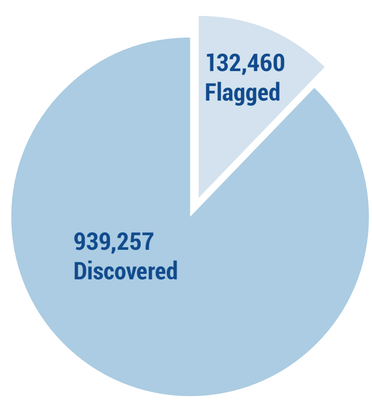
No Credit Check
Guaranteed
Match
Instant Approval
Best Rates
Instant Cash
100% Secure
Best Lenders
Best Loans
Lowest Rate
Pre-Qualified
Most Favorable
Pre-Approved
Instant Money
Lowest Fee
We Will Approve Your Loan
We Match You with the Lender Based on Your Circumstances

2016-2017

98% of all banned terms have been resolved

Online Lenders Alliance developed a list of banned terms to curb misleading and deceptive terminology for the online lending industry

ONLINE LENDERS ALLIANCE 1 MILLION URLs POLICED



Since 2016, 1 million URLs have been discovered and over 132,000 have been flagged

INTEGRISHIELD

The effort has been successful. Since initiating the program in 2016, IntegriShield has checked more than 1 million websites for potential violations of OLA Best Practices, and by August 2018 it had flagged 132,000 sites for concerns. By drilling deeper, IntegriShield uncovered more than 1,286 sites with violations in just the first six months. During the first two years of the OLA web-crawling initiative, IntegriShield discovered 2,476 instances of false or misleading terminology in use on websites. This number grew to 4,426 by August 2018 as the original 18 search terms were refined to increase the impact of each search.

Identifying violations is key, but the most important result of OLA's web-crawling is remediation. OLA takes violations seriously and has set up a process to take action against those who do not adhere to industry best practices. Violators are notified and have 28 days to correct infractions. After 28 days, violators who have not complied are published and details are turned over to the FTC. Enforcement has been successful. OLA's remediation rates in 2016 and 2017 were 98 percent.

AN ADVOCATE FOR CONSUMERS

The OLA Consumer Hotline has become a valued resource for individuals in need of a helping hand in resolving concerns. Callers can reach the OLA Consumer Hotline at 1-866-299-7585. Operators are on duty Monday to Friday from 7 a.m. to 7 p.m. Central time.

To aid consumers further, OLA developed the OLA Consumer Hotline, enabling callers to speak to a live operator to obtain help with their loan or report fraud. Many times these issues are resolved within 72 hours. From January 2016 through September 2018, the OLA Consumer Hotline fielded 25,555 calls—an average of 774 calls per month.

Callers to the OLA Consumer Hotline are greeted kindly and empathetically, and are asked to provide as much information as they can about their case. The information collected during these calls is used to investigate their issues, including fraudulent efforts to collect a debt. When appropriate, the OLA Consumer Hotline brings the matter to regulators' attention. Callers are assured of privacy, as their personal information is never shared with a third party; only details pertaining to the fraudulent issue are reported to regulators.

OLA Consumer Hotline operators are also available to help online loan customers who are having any difficulty reaching their loan company or dealing with repayment issues. The operators can be effective intermediaries in helping customers connect with the right person at the loan company so that their concerns can be addressed.

THE POWER OF DISCLOSURE

OLA's constant monitoring role is helping to improve the online lending marketplace. Its partner in the web-crawling initiative, IntegriShield, tracks and reports to OLA on companies that have failed to follow industry best practices even after the window for remediation has closed. Website owners are given an opportunity to resolve violations with a three-step notification process. During a 28-day period, companies that resolve violations are marked as resolved and continue to be monitored for repeat violations. Those that do not resolve violations are published by OLA. By publishing a monthly list of companies that operate outside industry norms, OLA ensures that the industry and consumers alike have important information for choosing companies with which to do business. Disclosure has proven to be a powerful deterrent: Over 50 percent of companies that were included on the published list corrected violations so their name would be removed.

NEXT STEPS – WORKING WITH REGULATORS

A decade of steady focus by the OLA to weed out bad practices through diligent web-crawling efforts is helping to make the internet a safer place for borrowers. OLA has brought thousands of violations to the attention of companies—and 98 percent of these violations have been remediated. This exemplary track record in holding companies accountable and encouraging them to do the right thing for borrowers is one of OLA's proudest accomplishments.

But OLA's work doesn't stop there. OLA is determined to provide leadership as the fintech industry explores ways to continually improve the borrower experience, and is working across industry lines to take policing the internet to the next level.

Since the internet came of age, the Federal Trade Commission has taken its consumer protection mission to cyberspace, ensuring that consumer protection principles are diligently applied in the electronic marketplace. OLA, in turn, has worked with the Federal Trade Commission to share information with the agency on companies that continue to violate the rules.

As a civil law enforcement agency, the FTC can deal decisively with fraud and deception and has a long track record of bringing cases to halt serious misconduct by providers of financial services. In recent years, one of its top priorities has been prosecuting civil enforcement actions to keep fraudsters from operating on the Internet and in other high-tech arenas. The FTC has brought landmark cases against companies such as Strategic Student Solutions, AT&T, and Lending Club, among others, for technology-driven missteps, signaling its intention to apply core consumer-protection principles while taking care to avoid stifling innovation.

In working with the FTC, OLA is sending the message that the fintech industry is committed to ending all forms of fraud.

A GROWING MISSION TO MONITOR THE INTERNET

One of the next chapters in these efforts will be a similar approach to reducing misleading claims in email marketing, including suspicious efforts to steal consumers' money, valuable information or identity through "phishing" scams. Beginning in 2019, OLA will expand the IntegriShield monitoring program to include the review of emails for untruthful and misleading practices.

With 3.8 billion email users worldwide sending 281 billion emails per day in 2018[11], email marketing is a juggernaut. Personalization and segmentation can make emails highly relevant and timely to recipients, making email a valuable source of product and service information for many consumers.

FOSTERING COMPLEMENTARY PRIVATE SECTOR PARTNERSHIPS

OLA identified an increase in Google email addresses associated with phantom debt-collection scams and is working with Google to resolve the matter.

Another way to elevate standards is through partnerships that bring together companies that share a commitment to the high standards of integrity exemplified by OLA membership. With the advent of the OLA Best Practices, OLA Seal and the web-crawling initiative, there has been a desire by companies to team up with like-minded companies—and to avoid those that may not be playing by the rules.

An important part of rooting out misleading email claims will be to work directly with email providers such as Google and Yahoo! to remove fraudulent email accounts once they are identified. In early 2018, OLA identified an increase in Google email addresses associated with phantom debt-collection scams. To address the growing threat, OLA has initiated discussions with Google's Investigations and User Protection Division to bring these concerns to Google management. These discussions are ongoing.

Meanwhile, banks are beginning to strengthen their ties to online lenders. Banks routinely rely on relationships with third parties to deliver financial services more broadly, more efficiently, and with less risk to consumers. While individual banks may

11 The Radicati Group, "E-mail Statistics Report, 2018-2022," March 2018.

not have all the technical know-how to market, underwrite, originate, service and collect personal loans over the Internet, they have access to a wide variety of fintech companies that have the technical expertise. These companies have spent years developing innovative technology and analytics. Banks can benefit from this expertise. Partnerships between banks and fintechs allow banks to offer broader access to credit to consumers and small businesses. In particular, smaller or community banks can utilize these relationships to help extend their reach and deliver safer, more transparent, lower cost and more convenient financial products and services to consumers.

In a survey by the American Bankers Association, 71 percent of respondents said their bank was interested in using a third-party digital platform for consumer loan origination. That figure was even higher (79 percent) for larger banks, those with assets above $1 billion.[12]

Banks were most interested in partnering for auto loans (71 percent) and unsecured personal loans (71 percent), as well as home improvement loans (56 percent) and student loans (44 percent.)

Navigating such partnerships will require cooperation among fintechs, traditional financial services companies, and regulators.

CONCLUSION: THE EVOLUTION OF A COMPREHENSIVE APPROACH TO POLICING

Borrowers aren't on their own in the fight against fraud and abuse. Under the leadership of the Online Lenders Alliance, best-in-class online lenders have made it a priority to safeguard consumers.

A group of companies that started out with a commitment to protect consumers in the online lending arena today deploys an array of consumer safeguards under the OLA banner. Pro-consumer weapons in the OLA arsenal now include detailed, written industry Best Practices; a robust web-crawling initiative aimed at weeding out improper behavior; an active OLA Consumer Hotline; a widely recognized OLA Seal; and a steady flow of reporting to the Federal Trade Commission.

As technology evolves and consumer comfort with online lending grows, these policing efforts will be ever more critical to protecting consumers. Unfortunately, one aspect of a rapidly evolving, technologically driven financial ecosystem is that there is always something new that requires vigilance.

The next chapter in OLA's policing efforts will include monitoring of deceptive emails, which have become a method of choice for financial criminals to conduct scams and fraud against consumers. OLA will also continue to expand the list of deceptive marketing terms that it is monitoring on the Internet, because bad actors keep coming up with new catchphrases and sales pitches to deceive customers. And OLA will continue working collaboratively through public-private partnerships to protect consumers.

The OLA is leading the way in the effort to reduce fraud and abuse in online lending. The industry is pioneering advances in technology, software, and underwriting so that lenders can provide smarter credit options to meet today's consumers credit need, while instilling trust in the online lending marketplace.

As the online lending industry absorbs this growth, it is also actively pursuing initiatives aimed at making this unique marketplace safe to the players, and above all, their customers.

Fortunately, however, borrowers aren't on their own in the fight against fraud and abuse. Innovative and responsible online lenders have made it their priority to safeguard consumers.

12 American Bankers Association, "The State of Digital Lending," January 2018.

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